

# NORTH DAKOTA STATE EMPLOYEE COMPENSATION COMMISSION

June 20, 2012

Human Resource Management  
Services Division

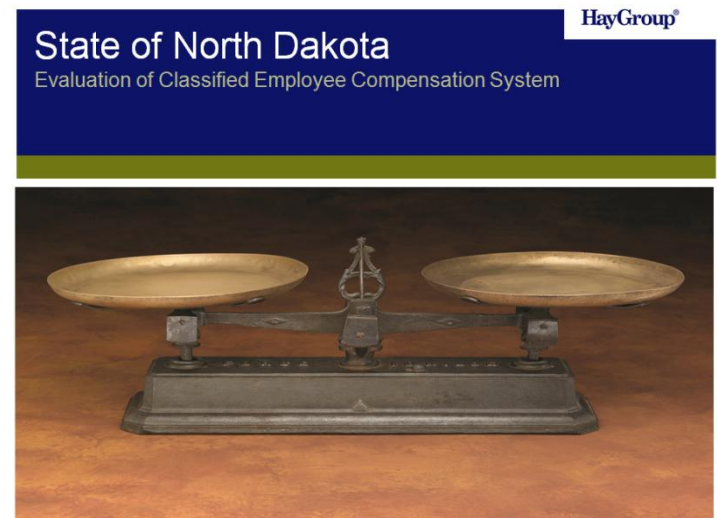
Office of Management and Budget

# North Dakota Classified Employee Compensation System Study Overview

The following slides outline

- the timelines,
- the legislative study process, &
- the implementation plan

for the new compensation system for the North Dakota Classified Service.



# **The study was directed in SB2001 (#7) and assigned to the Interim Government Services Committee**

**Section 7. LEGISLATIVE COUNCIL STUDY - STATE EMPLOYEE COMPENSATION.** During the 2009-10 interim, the legislative council shall consider studying the classified state employee compensation system, including a review of the development and determination of pay grades and classifications. The legislative council shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-second legislative assembly.

# Classified State Employee Compensation Study

- **December 2009** – Issued RFP for a consultant to assist with study.
- **February 2010** – Legislature contracted with the Hay Group to conduct the study
- **March-May 2010** – Hay Group gathered information including interviews with agency heads and HR staff
- **September 2010** – Hay Group presented study findings to Gov't Services Committee

# Classified State Employee Compensation Study

- **October 2010** – Hay Group presented final report with recommendations to Gov't Services Committee:
  - Adopt a Compensation Philosophy
  - Streamline & Simplify the Classification Process
  - Minimize Salary Inequities Through Job Evaluation Training
  - Appropriate Market Comparisons and Methods Used to Set Pay Grade Minimums, Midpoints, & Maximums
  - Develop Cost Estimates for Fringe Benefit Adjustments
  - Improve Guidelines for Recruitment & Retention Tools (bonuses)
  - Develop a Consistent Long-Term Salary Increase Administration Policy
  - Analyze the Effect of Appropriating Funds for Accrued Annual & Sick Leave and Funding of Vacant Positions

# Classified State Employee Compensation Study

- The Interim Government Services Committee accepted the recommendations and introduced them to the 2011 Legislature as **HB 1031**
- The Legislature contracted with the Hay Group to work with HRMS to implement the recommendations
- Implementation work was to be **completed by April 2011** in preparation for employee increases in **July 2011**
- The following slides from the Hay Group show:
  - The implementation initiatives
  - The work to be done
  - The work completed

# H.B. No. 1031 – Section 1

Initiative	Work to Be Done	Work Completed
<b>A State compensation philosophy statement</b>	<p>Develop a Compensation Philosophy that serves as an umbrella statement, linking compensation to the State's Mission, Vision, Values and its human resources objectives</p> <p>The Compensation Philosophy statement should include:</p> <ul style="list-style-type: none"> <li>• Definition of the market</li> <li>• Definition of compensation</li> <li>• Definition of how pay ranges will be established</li> <li>• Definition of how pay will move</li> <li>• Definition of roles and accountabilities</li> <li>• Definition of what will be stated in code, policy, procedure, etc.</li> </ul> <p>Involve key leadership from the Legislative and Executive Branches in the development of the Compensation Philosophy</p>	<ul style="list-style-type: none"> <li>• Adopted by the 62<sup>nd</sup> Legislative Assembly in Section 1 of HB 1031 (NDCC 54-44.2-01.2)</li> <li>• Implementation and administration of the Compensation Philosophy is covered in the initiatives in Section 2 of HB 1031</li> </ul>

# H.B. No. 1031 - Section 2

## Item 1, a.-d.

Initiative	Work to Be Done	Work Completed
<b>Adjust the methods used to determine classified state employee classifications by:</b>	a. Simplifying the classification and reclassification process (e.g., how decisions are made, constituency of decision-makers, accountability and responsibility of the State Personnel Board)	Preliminary process redesign and forms done by Hay Group in December 2010  Meeting held with HRMS and Agency HR leaders and classification staff in January, 2011  Feedback from Agencies in January, 2011
	b. Revising classification and reclassification forms to collect additional information, including information from the employee	Consolidation of feedback from Agencies  Hay Group reviewed feedback and determined what changes should be made to the process and forms  Hay Group made modifications to preliminary process and forms per feedback
	c. Revising classification specifications to ensure duties and responsibilities increase in complexity within a classification series and that minimum qualifications are appropriate	HRMS staff and Hay Group finalized process and forms in August, 2011  Roll out of the new process and forms to the Agencies is ongoing by HRMS
	d. Communicating and educating employees on the classification process	<b>Initiated January 2012</b>

# H.B. No. 1031 - Section 2

## Item 2, a.- e.

Initiative	Work to Be Done	Work Completed
<b>Minimize salary inequities both within an agency and within state government by:</b>	a. Providing job evaluation training for HRMS job evaluators and classification/reclassification committee members	Formation and training of Job Evaluation Committee consisting of 7 HRMS staff and 8 Agency HR staff  Purchase of the Hay Job Evaluation Manager (JEM) technology to enhance the speed and efficiency of the job evaluation process
	b. Evaluating, reviewing, and refining leveling for common/benchmark job classifications to create a framework of classified positions	Evaluation of benchmark classification job evaluations by Hay Group completed by early January  Review of benchmark job evaluations and slotting of the remaining classifications by the Job Evaluation Committee
	c. Evaluating, reviewing and refining leveling for unique/non-benchmark job classifications to develop a classification framework that ensures internal equity and that all classifications are appropriate	Review of the job evaluations for all 900+ classifications by Hay Group and the Job Evaluation Committee  Development of a new grade structure  Allocation of classifications to the new grade structure
	d. Identifying broad compensation system classifications and determining the appropriateness of classification	Plan developed by HRMS to implement the new grade structure effective July 1, 2011; subsequently deferred to July 1, 2012  Ongoing work by HRMS to address classification issues identified during the job evaluation process (e.g consolidation of selected direct care classifications)
	e. Identifying jobs that are unique to an agency and assessing the appropriateness of these jobs being included in statewide classifications	<b>Ongoing – ‘Sore-Thumbing’ &amp; resolving agency concerns &amp; issues with original evaluations</b>

# H.B. No. 1031 - Section 2

## Item 3, a.- f.

Initiative	Work to Be Done	Work Completed
<b>Develop appropriate market comparisons and methods to set pay grade minimums, maximums, and midpoints by:</b>	a. Redesigning the grade structure and reassigning common/benchmark and unique/non-benchmark job classifications	Identification of major sectors of employment and employers in North Dakota for participation in salary survey (112 employers) Selection of salary survey benchmark positions (103 benchmark positions)
	b. Customizing salary surveys and market analyses for the determined relevant labor market	Reviewed survey data from other sources such as: Central States Compensation Survey; Job Service Survey; Hay Group PayNet Database; Healthcare Survey for a total of 162 benchmark positions Analyzed data from all surveys
	c. Identifying job family and occupational groups that require different pay strategies from regular pay classifications	Reviewed benefits analysis (done as part of the 2010 review) for complete total pay competitive comparison
	d. Developing salary ranges for the general pay structure and for job family and occupational group structures	Development of new salary structures options and costing implications of new salary structure options Presentation of impact of costing to SECSOC in April 2011
	e. Decreasing the width of salary ranges and performing cost-to-implement analyses	Legislative decision to not appropriate funds for implementation
	f. Performing statewide, agency, and job family and occupational group internal equity analyses	As a result of this decision, the new grade and salary structure is being implemented effective July 1, 2012

# H.B. No. 1031 - Section 2

## Item 4, a.- c.

Initiative	Work to Be Done	Work Completed
<b>Develop cost estimates for potential fringe benefits adjustments relating to:</b>	a. Increasing the basic life insurance benefit from the current level of one thousand three hundred dollars to an amount equal to each employee's annual salary level or a benefit level of at least twenty-five thousand dollars	Any actions to be taken will be under the jurisdiction of the Employee Benefits Programs Committee  Any potential significant changes to the healthcare program are deferred pending the impact of changes in healthcare initiated at the federal level
	b. Implementing a long-term disability benefit separate from the pension plan	
	c. Requiring employees to share in the cost of healthcare insurance premiums	

Limited Final Recommendations

# H.B. No. 1031 - Section 2

## Item 5, a.- e.

Initiative	Work to Be Done	Work Completed
<b>Expand recruitment and retention tools by:</b>	a. Developing guidelines and amounts for recruitment and retention bonuses	Further analysis has been completed and given the degree of volatility in the employment in North Dakota, it is the conclusion of Hay Group that the current statute, policies and practices are allowing Agencies to address recruitment and retention bonuses
	b. Defining the type of performance to be recognized and rewarded through a performance bonus	NDCC 54-06-31 sets the establishes the framework within which Agencies can develop programs
	c. Reviewing the appropriateness of performance bonus maximums	Agencies must file their policies with HRMS and HRMS reports to the Legislative Committees on a regular basis. (e.g. in the past 2 years, one third of retention bonuses have been paid in the Department of Mineral Resources)
	d. Continuing to assist agencies in determining the appropriate utilization of nonmonetary rewards for employee retention efforts	To the extent to which pay ranges are set at the market average, the need for recruitment and retention bonuses may be reduced.
	e. Developing a targeted retention program for employees with three to five years of service	The same commentary on recruitment and retention bonuses also applies to performance bonuses.

Limited Final Recommendations

# H.B. No. 1031 - Section 2

## Item 6

Project Component	Work to Be Done	Work Completed
<p><b>Develop a consistent long-term salary increase administration policy by determining the funding request for salary adjustments using a single funding allocation method that includes performance and equity components</b></p>	<p>Continue to utilize two key components: performance and equity for movement of pay. However, going forward, fund pay movement through one pot of money rather than two separate allocations of funds. This will allow a greater linkage between relativity to market and performance, it is recommended that the following principles be applied:</p> <ul style="list-style-type: none"> <li>• for positions which are below market target, both a market adjustment and a performance payment be made;</li> <li>• for positions where the incumbent is above market target, a performance payment be made; and</li> <li>• for positions which are high in their salary range, the performance payment may be made with a mix of base salary and lump sum payment</li> </ul>	<p>The Compensation Philosophy adopted in HB 1031 provides for setting salary ranges at a competitive level in the relevant labor market and pay movement to be primarily based on performance</p> <p>HRMS will continue to provide recommendations regarding by how much the salary ranges should move and the amount of funding for salary changes.</p> <p>The intent of the compensation philosophy is that funding should be at a level greater than the amount by which the salary ranges change so that employees can move through their pay range, based on performance.</p> <p>Each year, HRMS will prepare a Pay/Performance Matrix that will be the basis for pay change. An example of this matrix is set out on page 13</p>

# Example Matrix

Relativity to Market Policy Position	% Increase		Level of Performance	% Increase	
100% or Above	0%		Exceeds Expectations	4%	
92.1 – 99.9% of Market Target	1%	+	Achieves Expectations	2%	= Increase
Less than 92% Below Market Policy Position	2%		Needs Improvement	0%	

Percentages in this table are for example only,  
actual percentages will be based on analysis and  
Budget available each year/biennium.

# H.B. No. 1031 - Section 2

## Item 7, a. – b.

Initiative	Work to Be Done	Work Completed
<b>Analyze the effect of:</b>	a. Appropriating funds to agencies for accrued employee and annual leave and sick leave	This should be addressed through the budget process. While retirement cannot be specifically planned, Agencies should review their employee demographic data as part of the budgeting process and be predictive as to the extent to which they will have a cost for accrued employee, annual and sick leave. This cost should be considered for inclusion in the budget.
	b. Defining “vacant” positions and excluding long-term vacant positions from agency budget requests	As stated in the report to the Government Services Committee in October 2010 report, it is the opinion of Hay Group that the period between one employee leaving a position and another employee filling that position constitutes a genuine vacancy, and Agencies should have the flexibility to utilize those salary dollars. Longer term vacancies should be monitored on a case by case basis within the budgeting process.

Limited Final Recommendations

# Classified State Employee Compensation Study

- The following slides provide further detail on the actual activity that has occurred leading to full implementation of the new compensation system on July 1, 2012
- HRMS and the Job Evaluation Committee (JEC) have been actively reviewing initial job evaluations to resolve issues identified by agencies
- The Classification/Compensation system is a 'living' process in that individual positions, occupations/job classes, organization structures, and employment market conditions are constantly changing

# Classified State Employee Compensation Study

- **January – April 2011** – Hay Group & ND HRMS Focused on Implementation of the Primary Study Recommendations
  - Revised/Modified the Process and Forms used in Job Classification & Analysis
  - Formed Job Evaluation Committee (**7 HRMS & 8 Agency HR Staff**) and received training in the Hay Guide Chart-Profile Method of Job Evaluation
  - **Hay Group & JEC evaluated all 900 ND Job Classifications**
  - Hay Group conducted a Custom Salary Survey to focus market analysis on appropriate employment market
  - Hay Group developed a revised grade structure based on the job evaluations and market-based ranges from the custom salary survey

# Classified State Employee Compensation Study

- **April 14, 2011** – Hay Group presented final findings, including fiscal impact, to the Legislative Committee
  - Hay Group offered 2 Options for implementation:
    - Option 1 established ranges with a ‘Market Policy Point’ at 100% of market, minimums at 80% of MPP, maximums at 125% of MPP
      - Base implementation meeting new range minimums cost = **\$6.4 mill**
      - Full implementation moving employees into ranges cost = **\$39 mill**
    - Option 2 established ranges with a ‘Market Policy Point’ at 98% of market, minimums at 80% of MPP, maximums at 125% of MPP
      - Base implementation meeting new range minimums cost = **\$4.9 mill**
      - Full implementation moving employees into ranges cost = **\$35 mill**

# Classified State Employee Compensation Study

- The Hay Group and HRMS met the timelines directed by the legislature
- ***The Legislature determined that it was not practical to revise salary appropriations to fund implementation in July of 2011.***
- Based on the legislative decision, HRMS continued to work with the Hay Group on alternative plans to implement the study recommendations.

# Classified State Employee Compensation Study

The alternate implementation plan provides for:

- Retaining the existing classification grades & range structure through June 30, 2012
- Adopting the revised classification plan, grades, & ranges on July 1, 2012
  - Revised structure will place each salary range 'Market Policy Point' at 100% of market
    - Minimums at 75% of Market Policy Point
      - (vs original recommendation of 80%)
    - Maximums at 125% of Market Policy Point
  - Estimated total cost to meet new range minimums on July 1, 2012 is estimated between **\$1.3 & \$1.9 mill** (in addition to appropriations for general increases)

# Classified State Employee Compensation Study

- Preparation for Full Implementation on July 1, 2012
  - Finalize Ranges for July 1, 2012 – *Hay Group & HRMS*
    - Adjust the ranges from original 2011 implementation plan
    - Based on discussion with the Hay Group, the **ranges were 'aged' by 3.0%** to account for market movement from 2011 to 2012
  - Pay Structure changing from grades 1-20 to grades A-V
    - **There is no direct conversion from grade-to-grade**, all jobs were re-evaluated
- Future plans call for updating the custom salary survey during the budget cycle in 2014 prior to setting the ranges for July 1, 2015

# Classified State Employee Compensation Study

- When New Structure is Implemented on July 1, 2012, the Salary Ranges Assigned to Job Classes Will Change, Some Will:
  - **Be significantly higher**
  - **Remain Stable**
  - **Be lower**
- **HRMS & the JEC are Re-Reviewing Job Classes** Based on Agency Concerns
  - Re-Evaluate Jobs to Quality Check Original Evaluations
  - Review Market Data for Pay Grade Exceptions

# Classified State Employee Compensation Study

A significant impact of the new system will be employees whose **salary falls below the new salary range minimum**.

- HRMS, OMB Budget Staff, & affected Agencies have met to review the impact and give agencies time to develop plans to address salaries below the range.

A second, significant impact is more **'compression' of salaries at the low end of the salary ranges**.

- With the more direct market relationship in the salary ranges, HRMS & OMB Budget Staff will be able to **recommend more effective distribution of salary appropriations to address compression**
- The compression issue is significant and **will require several bienniums to address** if funding is provided

# Classified State Employee Compensation Study

The new system is a **significant upgrade to the class/comp system** in use since the 1980's

- The concept is similar to what has been in use but the **Hay System of Job Evaluation is constantly reviewed, updated, and validated world-wide in both private and public employment**
  - Job Class relationships resulting from the new system are changing and such change is sometimes hard to accept
- **The Market component of the implementation is a significant system improvement**
  - Previous market included **Job Service ND data for ND employers** and **10 State Governments** for regional data
  - New market includes Job Service and regional state government data but also included data from the **Hay Group compensation database, ND Hospital Association, & a custom survey of 103 benchmark job classes to a broad range of ND employers**

# Classified State Employee Compensation Study

- Ranges under the new system are being established at **100% of Market**
  - Ranges will be more competitive but **salaries will remain clustered at the low end of the ranges**
  - More precise information will facilitate **prioritization of salary distribution**
- Hay Group recommendations included tools to help agencies combine **market position and performance in future salary increase decisions**
  - More precise market information will provide more basis to **target competitive salaries in the budget process**

# QUESTIONS?

## HRMS

**Ken Purdy, Classification & Compensation Manager**  
**Laurie Sterioti Hammeren, Director**